



**Director of
Central
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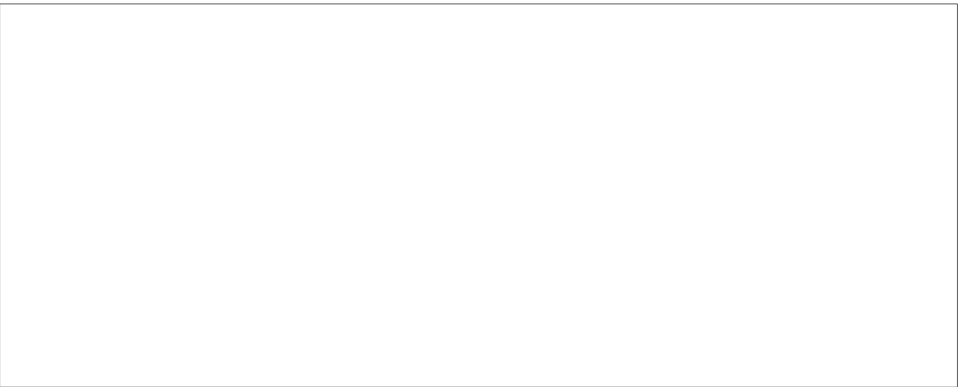
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CENTRAL AMERICA: Contadora Meeting

The discussions beginning today in Panama between the Central American Foreign Ministers and the Contadora countries—Venezuela, Mexico, Colombia, and Panama—take place amid signs of continuing problems over some key issues. [redacted]

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The Contadora ministers will present a 10-point program to secure commitments from the Central Americans for a regional peace plan. The program's key provisions, drawn up at the recent Contadora summit meeting in Mexico, include the establishment of mechanisms for arms control, supervision of borders, and the prohibition of foreign military installations. [redacted]

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Four of the five Central American nations commented on the program following a ministerial meeting last week in Guatemala, which Nicaragua did not attend. The Foreign Ministers stressed the need for withdrawal of foreign military advisers from the region and for guarantees that democratic elections will be held in all Central American countries—provisions not specified in the Contadora program. [redacted]

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In a separate statement Honduras has criticized a Nicaraguan peace proposal issued shortly after the Contadora summit. Although Managua departs from its previous position by indicating willingness to consider multilateral discussions, its plan avoids mention of elections and foreign military advisers. It also calls for a nonaggression pact with Honduras and prohibition of combined military exercises. [redacted]

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Comment: Except for Nicaragua, the Central Americans probably are pleased that most of the principles contained in the Contadora plan lend themselves to regional rather than bilateral discussion. Nevertheless, they may fear that some of the Contadora group will be swayed by Nicaragua's appearance of flexibility. As a result, the Central Americans are likely to maintain a unified position on elections and foreign military advisers in an effort to increase pressure on the Sandinista government. [redacted]

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EL SALVADOR: Military Operations

The Army is concluding operations northeast of San Salvador and is moving against insurgents in Morazan Department.

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Comment: The fighting near Suchitoto—long a target of the guerrillas—may have stemmed from a decision to attack the Atlacatl Battalion.

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The battalion, however, appears to have more than held its own.

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FRANCE: Dispute Over INF

Statements by French Communists that France's missiles should be taken into account in the INF negotiations have provoked a quarrel with their Socialist coalition partners, but a break between them is unlikely. [REDACTED]

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Communist Party chief Marchais parted with the coalition position during his recent talks in Moscow. According to press accounts, Marchais has since tried to equivocate by insisting that his statements do not mean that French nuclear forces would have to be reduced.

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Socialist spokesmen and press commentators have pointed out the government's position is that French forces cannot be considered at Geneva, and they have criticized Marchais for adopting the USSR's position. Marchais in turn has said that the Socialists cannot ally themselves with Washington while remaining neutral in their dealings with Moscow.

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Comment: The debate over INF is bringing differences between the Socialists and Communists to the surface, but Marchais has publicly denied that his party will leave the coalition over the issue. A break would be more likely to occur over the economic austerity program, which would enable the Communists to pose more easily as the defenders of the workers' interests.

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As a member of the coalition, Marchais finds it difficult to maintain the party's traditional support for Moscow's foreign policy. His equivocations could confuse party militants and confirm the suspicions of non-Communists that he will not defend national interests.

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The Communists' position probably will not affect French defense policy or public attitudes toward INF. Most voters support Mitterrand's commitment to a strong national defense, including nuclear missiles.

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IRAN-SAUDI ARABIA: Tension Over Pilgrimage Restrictions

Iran is increasingly irked by Saudi efforts to restrict the numbers and activities of Iranians making the religious pilgrimage to Mecca.

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Over the past two weeks, Iran has intensified its public attacks on the Saudis to put pressure on Riyadh to soften its position. Assembly speaker Rafsanjani and other leading clerics have accused the Saudis of violating their Islamic obligations. Tehran also has sent letters to other Muslim states seeking their support.

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Comment: Saudi leaders seem increasingly uneasy over Tehran's public attacks. Their anxiety probably has been aggravated by recent Iranian threats to block oil exports from the Persian Gulf if Iraq increases its attacks on Iran's oil facilities.

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Nonetheless, Riyadh will do its utmost to prevent Iranian-instigated disturbances in Mecca. If disturbances do occur, Saudi security forces will move quickly and forcefully to subdue agitators.

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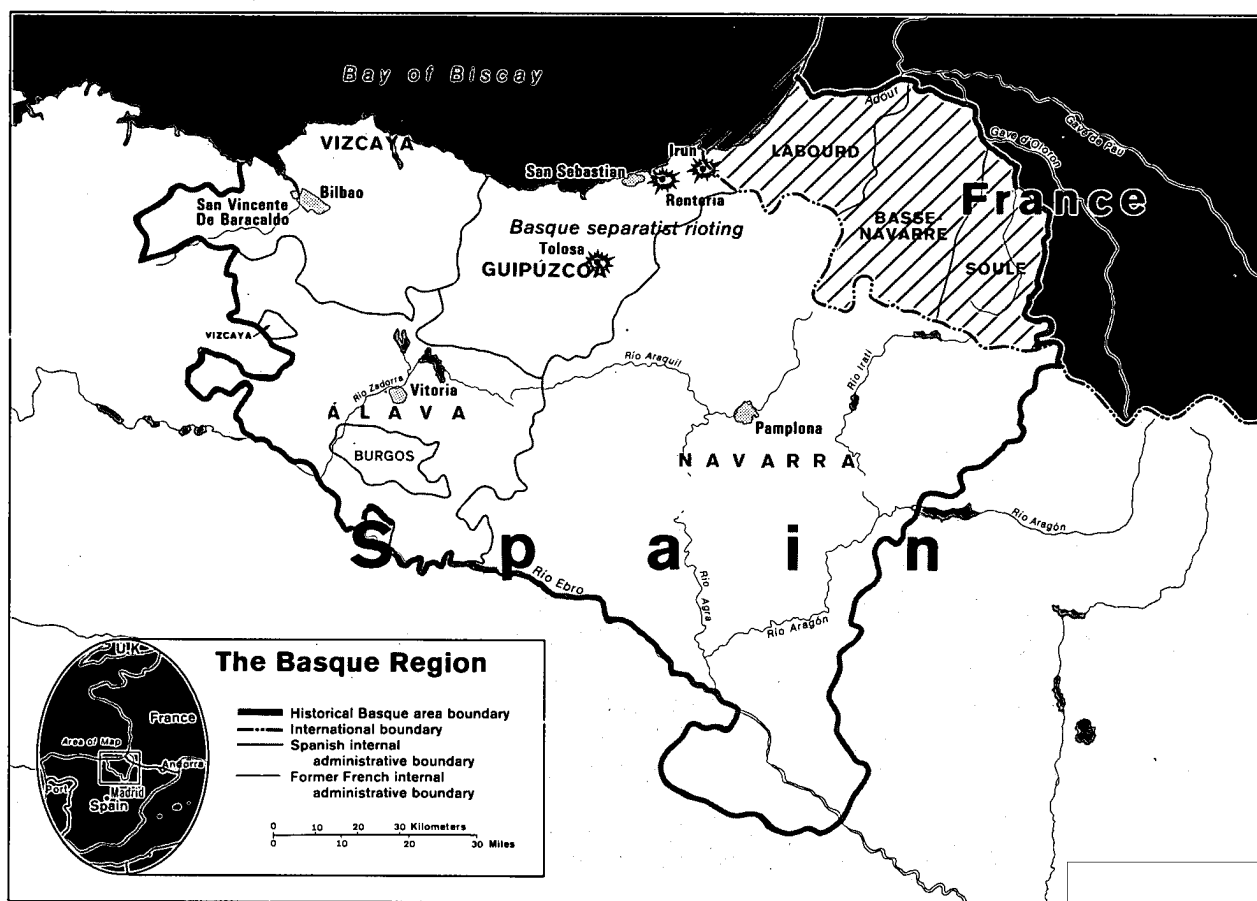
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SPAIN: Unrest in the Basque Country

Rioting by radical separatists in the Basque country has highlighted new strains in relations between the central government and the region, but Madrid should be able to contain the violence.

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Militants of the terrorist-linked Herri Batasuna Party recently have tried to tear down Spanish flags in several Basque towns. Scores of rioters and police have been injured, but so far no deaths have occurred.

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Comment: The disturbances are in marked contrast to the Socialists' success elsewhere in reducing regional tensions and speeding up the devolution of power to regional authorities. Special circumstances in the Basque country have temporarily slowed the pace at which power is being transferred. This—and concern about projecting a nationalist image in the election next year for the Basque parliament—has discouraged the moderate Basque regional government from cooperating with Madrid or controlling the more radical separatists.

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Such an approach would be likely to reduce the number of flag-burning incidents, which have irritated the military and other conservative groups. A more comprehensive solution to the Basque problem probably will have to wait until after the election next year, when the regional government may be more confident of its authority.

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LEBANON: Christian Militia Activity



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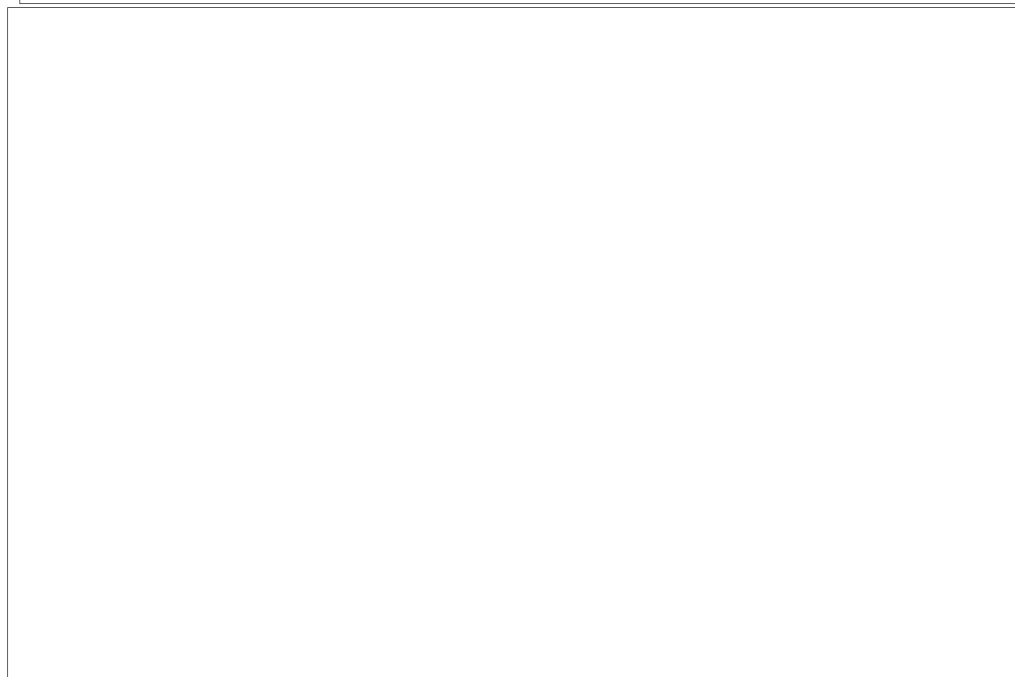
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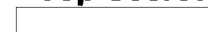
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**EC: Steel Quota System Extended**

The EC Council, following a drop in prices for some steel products, agreed on Monday to extend steel production controls until 30 January 1984. In May and again in June, EC industry ministers failed to reach a compromise on the extension issue. At the meeting this week, most member states supported the EC Commission's argument for a 30-month extension to safeguard prices for producers, but Italy objected. The Italian Minister of Industry maintained that Rome could not agree to a longer term arrangement before the new government takes office. [redacted]

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Comment: Italy is likely to use agreement to future extensions as a source of leverage to limit EC reductions in Italian steelmaking capacity. As part of its reorganization of the steel industry in the EC, the Commission is demanding that Italy reduce its production capacity by 16 percent from the 36-million-ton capacity it had in 1980. Despite the Italians' tactics, the quota system probably will be extended again in January. Most EC members, including Italy, want to avoid lower prices induced by excess steel output. [redacted]

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Special Analysis

USSR-SYRIA-PLO: Moscow's Conflicting Objectives

President Assad's backing of the rebels in the PLO who are challenging Yasir Arafat's leadership has presented the USSR with a major dilemma. The Soviets want to preserve PLO unity but do not want to jeopardize their good relations with Assad, which are crucial to the USSR's continued influence in the Middle East. Moscow probably believes the PLO mutiny undercuts any effort by Arafat to revive his flirtation with the US peace plan. The Soviets, however, differ with PLO radicals opposing him over long-term strategy. They probably are concerned that Syria stands to gain the most if the dissidents weaken Arafat's control.

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Moscow discreetly supported Arafat when the mutiny began in May. Soviet media coverage throughout June called for PLO unity and criticized the dissidents' use of force.

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An article by *Pravda's* top Middle East commentator in late June contained veiled criticism of Assad and indirectly endorsed Arafat. PLO media have stated, and a Soviet Foreign Ministry official recently acknowledged, that General Secretary Andropov sent several letters to Arafat supporting his leadership.

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During the past few weeks, the Soviets have edged away from Arafat.

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Arafat reportedly was disappointed by Soviet reluctance to show support for him during the visit to Moscow in midmonth by the PLO's director of political affairs, Faruk Qaddumi.

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The apparent reduction in Moscow's support may reflect an assessment that the USSR has more room to maneuver. A middle-level Soviet official has told US diplomats that Arafat has contained the challenge to his leadership. Despite the recent clashes between pro- and anti-Arafat PLO forces in the Bekaa Valley, Soviet media have not shown the same concern they exhibited over similar battles in June.

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Assad's Key Role

The Soviets' tactical shift also probably reflects recognition that Syria is vital to the USSR's role in the Middle East. [REDACTED]

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The Soviets almost certainly are reluctant to alienate Assad with pressure tactics. Moscow may be concerned that use of leverage might make Assad more inclined to strike a deal with the US over Syrian withdrawal from Lebanon. [REDACTED]

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Moscow's View of the Feud

The USSR is unlikely to end its discreet support for Arafat as chief of the PLO in the absence of an acceptable alternative. [REDACTED]

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[REDACTED] In view of the Soviets' emphasis on united opposition to the Israeli-Lebanese accord and to the US peace initiative, they probably are reluctant to back another PLO leader who might not possess Arafat's ability to attract broad Arab support. [REDACTED]

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Moscow also is likely to be concerned that a Syrian-dominated PLO might lead to a splintering of the movement, with Palestinians on the West Bank and in Gaza seeking negotiations with Israel. The Soviets believe that their support for the PLO and for an independent Palestinian state is vital to Soviet participation in resolving the Arab-Israeli dispute. [REDACTED]

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Although the USSR welcomes the dissidents' rejection of the US peace plan, it probably is uneasy about their endorsement of a purely confrontational strategy. Moscow long has championed a military and political strategy for the PLO that advocates negotiations with Israel and recognition of the latter's right to exist. [REDACTED]

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The rebellion, however, has given the USSR an opening to try to extract concessions from Arafat in return for its endorsement. The Soviets reportedly want stronger backing from Arafat for their interests in the region, particularly for Moscow's call for an international conference to resolve the Arab-Israeli dispute. The USSR also may believe the recent movement by the PLO's two Marxist factions toward closer cooperation will help expand leftist influence in the organization.

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Outlook

The Soviets are likely to continue urging the PLO to maintain unity and encourage a reconciliation between Arafat and Assad while carefully avoiding actions that would antagonize Assad. If Assad and Arafat indicated they were receptive, Moscow might be willing to try to mediate disputes between Syria and the PLO. Soviet leaders probably hope that, if Arafat survives as PLO chief, his need for their support will make him more sympathetic to Soviet views and less inclined to engage in any US-sponsored negotiations that exclude the USSR.

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